

# Message from Head of Finance and Treasury



**Masakatsu Sato**

SuMi TRUST Holdings  
Managing Executive Officer

## 1 Inauguration greeting/Environmental awareness

It is my great privilege to be appointed as the Head of Finance and Treasury, commencing from this fiscal year.

Developments in liquidity and unstable credit conditions in financial markets, such as bank failures in the United States and the consolidation of financial institutions in Europe, have made this year's forecast uncertain. Amid growing opacity and uncertainty, we recognize the need for early and proactive financial responses. Looking at capital markets, there is an increasing demand for management that is conscious of capital cost and ROE, as evidenced by revisions to the Corporate Governance Code, market

restructuring by the Tokyo Stock Exchange, and its request for improvements from low-PBR companies. There are also growing expectations for sustainable growth in a manner that pays consideration to various stakeholders; more specifically, expectations for the promotion of investment in non-financial capital such as human capital and IT systems and the enhancement of information disclosure. In this environment, we will focus on optimizing our financial stability and profitability and shall strive to develop and execute financial and capital policies to maximize the value for each stakeholder, in order to maximize corporate value.

(Billions of Yen)		FY2021 result	FY2022 result	Change from previous year	FY2023 forecast
Profit indicators	Net Business Profit before Credit Costs	346.0	324.6	(21.4)	320.0
	Net Income Attributable to Owners of the Parent	169.0	191.0	+21.9	200.0
Profitability indicators	Fee Income Ratio	54.0%	55.1%	+1.1%	Mid-50% range
	Overhead Ratio (OHR)	57.1%	60.1%	+3.0%	Lower 60% range
Financial indicators	Return on equity <sup>*1</sup>	6.25%	6.93%	+0.68%	Lower 7% range
	Common Equity Tier 1 capital ratio <sup>*2</sup>	9.9%	9.5%	(0.4%)	Mid-9% range

<sup>\*1</sup> {Net income attributable to owners of the parent / (FY-start total equity + FY-end total equity) ÷ 2} × 100

<sup>\*2</sup> Based on finalized Basel III base

Aiming to be a  
value creating company

Enhance Corporate Value  
and Management Base

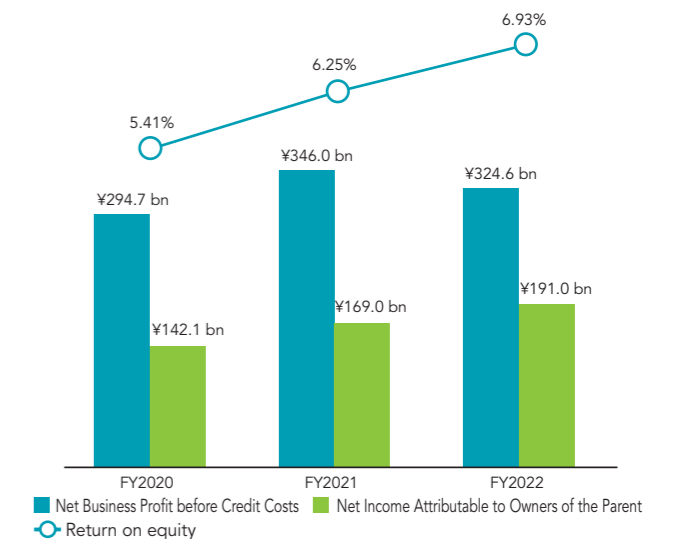
Messages from  
subsidiary management

Business Strategy

Financial information  
Corporate information

## 2 Review of the previous Medium-Term Management Plan (FY2020–2022)

Looking back at the previous Medium-Term Management Plan period, it was three years marked by major changes, such as the spread of COVID-19 and accompanying rapid growth of digitalization. At SuMi TRUST Holdings, the fee income business drove growth, and net business profit in the final year of the Medium-Term Management Plan amounted to 324.6 billion yen, exceeding the initial plan by about 35 billion yen. We believe it reflects a steady improvement in our profitability. We also achieved our targets for net income attributable to owners of the parent and ROE. With regard to the utilization of capital during this period, we made organic investments in human capital to achieve sustainable growth (increasing output and enhancing sales internally) as well as inorganic investments (business growth from acquisitions or opening new stores) including the establishment of a joint venture with UBS Group, and repurchased shares worth approximately 50 billion yen over the three years. As for shareholder returns, we increased the consolidated dividend payout ratio to 40% as planned, and raised the dividend per share by 60 yen.

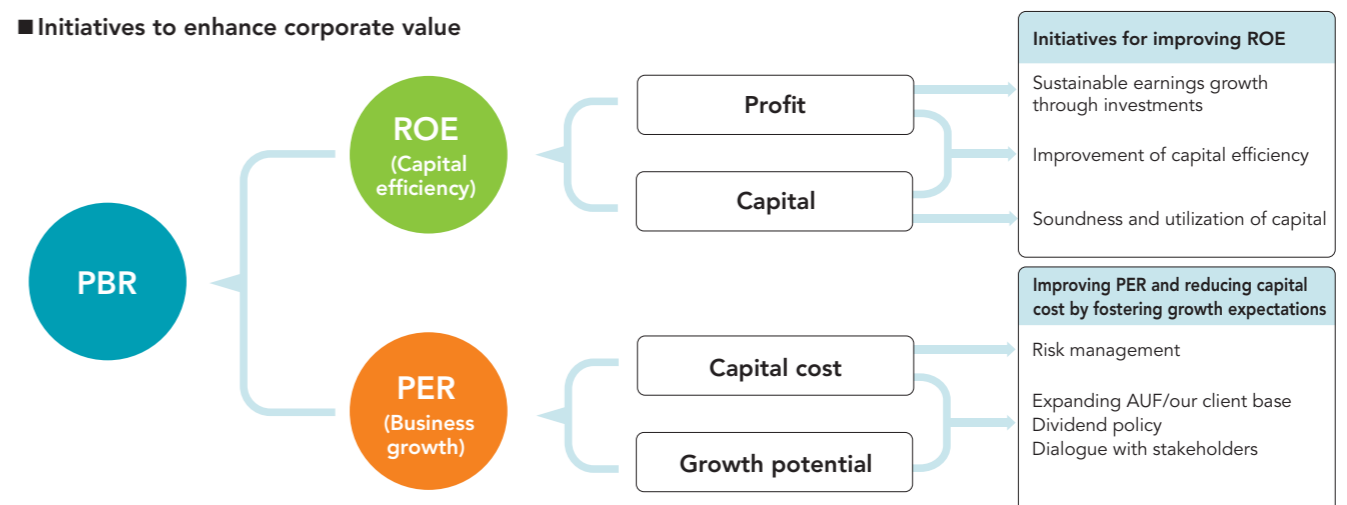


## 3 Initiatives for enhancing corporate value under the new Medium-Term Management Plan (FY2023–2025)

In formulating the new Medium-Term Management Plan, we defined SuMi TRUST Vision 2030 for the financial aspect as achieving ROE of 10% or higher, and set the goal of achieving PBR of at least 1.0x at an early stage. Toward the realization of SuMi TRUST Vision, during the period of the new Medium-Term Management Plan (fiscal 2023 to fiscal 2025), we will focus on two key points: (i) achieving the target ROE of 8% or higher and demonstrating steady growth in our performance, and (ii) fostering growth expectations by raising the probability of further improvement in ROE. We will

also continue to implement appropriate risk management and contribute to the enhancement of corporate value. The diagram below illustrates our initiatives to achieve PBR of at least 1.0x. As PBR is a combination of ROE and PER, the key is how we could improve each of them. By promoting a capital-light business model unique to a trust group, we aim to improve ROE and increase PER by actively investing in non-financial capital that will have a positive impact on our future financial capital.

### Initiatives to enhance corporate value



(1) Initiatives for improving ROE

(i) Sustainable earnings growth through investments

Continued investment in human capital and IT systems from the past enabled us to improve profitability during the period of the previous Medium-Term Management Plan. We will continue to expand human capital investments that contribute to enhanced employee motivation, such as reskilling and equity incentive plans, in addition to increases in base remuneration.

(ii) Improvement of capital efficiency

We will improve capital efficiency by transforming the quality of assets, not their size. More specifically, we aim to improve the profitability of our investment and loan portfolios through asset replacements, while controlling asset balances and risk-weighted assets at a relatively stable level.

(iii) Soundness and utilization of capital

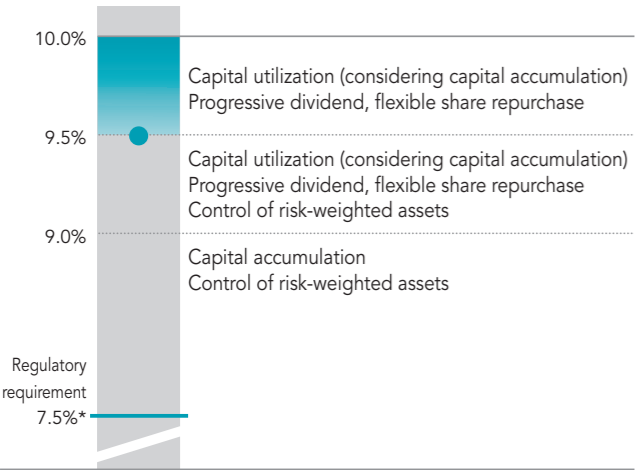
We recognize that ensuring the soundness of capital is a key premise for investment in future growth and sustainable shareholder returns. We will maintain common equity tier 1 capital ratio at an appropriate level, with renewed focus on financial discipline for the control of risk-weighted assets and capital utilization. More specifically, we will enhance the effectiveness of management through periodic monitoring, in addition to reducing strategic shareholdings and appropriate divestment of assets.

We will also make IT investment worth 400 billion yen (cash flow basis) over the next three years to not only improve productivity, but also provide clients with improved convenience and services in order to further deepen business relationships. By stepping up these investments, we aim to enhance our future financial value.

In addition, by expanding the use of assets that are “driven by investors’ needs,” such as private assets, and collaborative equity investments with Investor Services Business and Corporate Business, we aim to create and expand these markets, thereby achieving stable and sustainable growth in fee income.

Also, as a way to utilize financial capital, we will promote investment for growth that contributes to the expansion of the trust group’s businesses, such as in the areas of asset management and asset administration, and investment in solutions for social issues, including impact equity. We will also flexibly repurchase shares taking other investment opportunities and the status of capital into consideration.

■ Capital management perspective (balance between adequacy and efficiency)



\*Common Equity Tier 1 capital ratio: Based on finalized Basel III base. Including valuation difference on AFS

■ Target of CET1 ratio\*

Basic policy
Stably maintained above 10%
Regulatory requirement of 7.5%; Financial buffer of 2.0%, and Management buffer of 0.5%
Financial capital utilization
✓ Investment for growth (expand the trust group’s businesses)
✓ Investment in solutions for social issues
✓ Share repurchase

(2) Improving PER and reducing capital cost by fostering growth expectations

(i) Expanding AUF/our client base

We aim to foster growth expectations and reduce capital cost by expanding AUF/our client base.

At SuMi TRUST Holdings, we have adopted the new KPI of Assets Under Fiduciary (AUF) as an indicator of the scale of our initiatives to contribute to solving social issues and creating and expanding markets .Through the expansion of AUF, we aim to achieve stable business growth centered on fee income. Products and

services related to inheritance for individual clients and pension products for corporate clients, which are unique to a trust group, are the source of our stable growth based on long-term relationships of trust. In the future, we will allocate management resources to expand our client base among the asset formation generation and start-up companies with which business relationships can be expected to be maintained over a longer term, thereby achieving stable growth.

(ii) Risk management

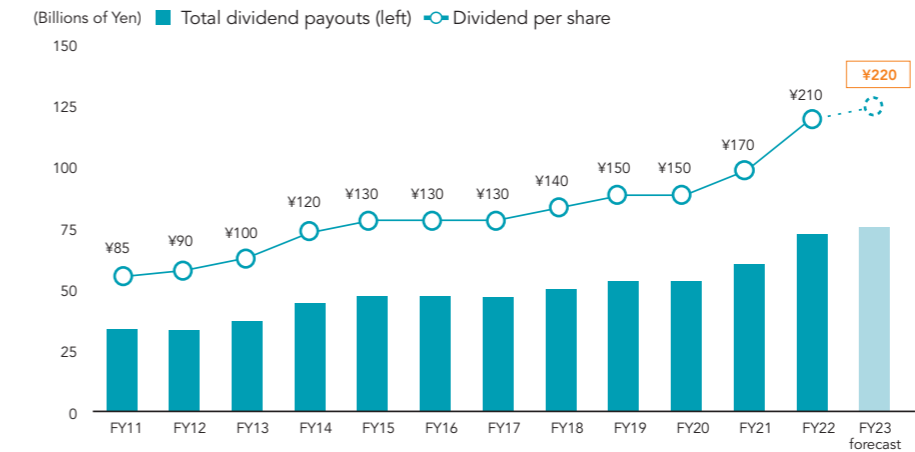
We aim to reduce capital cost by appropriately addressing various risks inherent to us, such as market risk and credit risk, leading to our business and financial downside resilience. More specifically, with regards to the share price risk associated with strategic shareholdings, we will maintain

constant dialogue with our clients to reduce such risk, and also utilize hedging transactions to manage the impact of share price fluctuations on capital. We will also oversee credit risk by proactively preparing for the future through special provisions in fiscal 2023 as well.

(iii) Dividend policy

We have been striving to strengthen shareholder returns, positioning stable return of profit to shareholders and enhancement of returns as one of our important management policies. We have recently modified our shareholder return policy, in alignment with our intention to steadily return the fruit of our growth over the medium to long-term.

We have introduced a progressive dividend management policy for dividend per share, and the consolidated dividend payout ratio will be set at 40% or above. We will continue to promote initiatives to balance financial soundness and stable profit growth while being mindful of both short-term and medium- to long-term time horizons.



(iv) Dialogue with stakeholders

In addition to steadily advancing the above initiatives, we believe that providing information to investors through proactive disclosure, including the enhancement of disclosure contents, will help to foster growth expectations and reduce capital cost. In addition, we will further accelerate our efforts

to enhance corporate value by invigorating dialogue with stakeholders through easy-to-understand communication, sharing information in a timely manner with the Board of Directors about opinions received through dialogue, and reflecting them in our management strategies.